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Board of Supervisors
The County of Orange, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the County of Orange, California (County), as of and for the year ended June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, which became effective for all governmental entities' financial statements on which the auditor's report is dated after October 31, 1998, requires disclosure of certain matters regarding the year 2000 issue. The County has included such disclosures in Note 26. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, we are unable to audit assertions included in the County's disclosures with respect to the year 2000 issue made in Note 26. Further, we do not provide assurance that the County is or will be year 2000 ready, that the County's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the County does business will be year 2000 ready.

OFFICE LOCATIONS

Sacramento • Los Angeles • San Francisco Bay Area

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the general purpose financial statements, during the year ended June 30, 1998, the County changed its method of accounting for the defined benefit retirement plan for less than half-time and extra help employees, pension costs and related disclosures, certain investments and the County's external investment pools, and the deferred compensation plan to conform with GASB Statement Nos. 25, 27, 31 and 32, respectively.

In accordance with *Government Auditing Standards*, we have issued a report dated November 30, 1998, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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Los Angeles, California
November 30, 1998